

Message Text

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PAGE 01 STATE 007498
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EUR/SOV:W EDGAR
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FM SECSTATE WASHDC
TO AMEMBASSY BERLIN
AMEMBASSY BONN
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AMEMBASSY MOSCOW
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CONFIDENTIAL

PAGE 02 STATE 007498

AMEMBASSY ROME

C O N F I D E N T I A L STATE 007498

E.O. 11652: N/A

TAGS: ETRD, ECON, BTIO

SUBJECT: HARD CURRENCY TRADE AMONG CEMA COUNTRIES

REF: A) MOSCOW 18239 B) SOFIA 2491 C) WARSAW 7783
D) FRANKFURT 8574 E) STATE 233733

1. DEPARTMENT APPRECIATES ADDRESSEES' EFFORTS TO DEVELOP INFO ON INTRA-CEMA HARD-CURRENCY TRANSACTIONS AND BELIEVES RESPONSES TO REF E HAVE SHED SOME LIGHT ON AN EXCEEDINGLY MURKY SUBJECT. WE THINK IT USEFUL AT THIS JUNCTURE TO SUMMARIZE ANSWERS HERE AND TO POINT OUT SOME STILL UNANSWERED QUESTIONS WHICH POSTS MAY, AT THEIR DISCRETION, BE ABLE TO EXPLORE FURTHER.

2. CEMA EXPERTS IN DEPARTMENT AGREE THAT INTRA-CEMA HARD CURRENCY TRADE IS CONFINED LARGELY TO TRANSACTIONS ABOVE AND BEYOND REGULAR BILATERAL TRADE AGREEMENTS. THIS IS NECESSARILY THE CASE SINCE SUCH AGREEMENTS ARE WHOLLY BARTER ARRANGEMENTS. HARD CURRENCY TRANSACTIONS, FURTHERMORE, ARE LIMITED TO TRADE IN "HARD GOODS"--AGRICULTURAL AND INDUSTRIAL RAW MATERIALS PLUS SELECT MACHINERY--THAT NORMALLY ARE SALEABLE IN THE WEST.

3. TRANSACTIONS OF THIS SORT ALMOST CERTAINLY CONSTITUTE ONLY A SMALL PROPORTION OF TOTAL CEMA TRADE. TO FACILITATE PLANNING, MOST TRADE TAKES PLACE WITHIN THE CONFINES OF ANNUAL BARTER AGREEMENTS. SECONDLY, MUCH ABOVE-PROTOCOL TRADE IS CONDUCTED IN ORDER TO DISPOSE OF GREATER THAN PLANNED PRODUCTION OF, AND TO MEET UNEXPECTED DEMAND FOR CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 007498

"SOFT GOODS" FOR WHICH NO ONE IS WILLING TO PAY HARD CURRENCY OR AN EQUIVALENT VALUE IN HARD GOODS.

4. THE PRINCIPAL UNANSWERED QUESTION IS WHAT IS MEANT BY PHRASES "DENOMINATED IN HARD CURRENCY" AND "PAYABLE IN HARD CURRENCY," USED BY EAST EUROPEAN OFFICIALS TO DESCRIBE THESE TRANSACTIONS. DO THEY REFER PRIMARILY TO ACTUAL TRANSFERS OF FOREIGN EXCHANGE IN PAYMENT FOR HARD GOODS, EITHER AT THE TIME OF EACH TRANSACTION OR CUMULATIVELY OVER A SPECIFIED PERIOD? OR IS IT MORE LIKELY THAT THEY REFER MERELY TO EXCHANGES OF GOODS AT RATIOS IMPLYING EITHER CURRENTLY PREVAILING WORLD MARKET PRICES OR PRICES DIFFERING FROM THOSE NORMALLY ARRIVED AT THROUGH THE OPERATION OF CEMA PRICING FORMULAE?

5. THIS IS AN IMPORTANT ISSUE, SINCE HARD CURRENCY TRANSFERS, TO THE EXTENT THEY MAY BE TAKING PLACE, REPRESENT A SMALL, BUT SIGNIFICANT STEP TOWARD CLOSER LINKAGES BETWEEN CEMA COUNTRIES AND THE WORLD ECONOMIC SYSTEM. CREDITOR

COUNTRIES IN INTRA-CEMA HARD CURRENCY TRANSACTIONS WOULD BE ABLE TO FINANCE TO SOME EXTENT THEIR HARD CURRENCY DEFICITS WITH THE WEST. IN 1975, FOR EXAMPLE, HUNGARY'S TOTAL REPORTED HARD CURRENCY TRADE DEFICIT WAS ABOUT \$200 MILLION LESS THAN ITS DEFICIT WITH THE REST OF THE WORLD, IMPLYING A SURPLUS IN THIS AMOUNT FOR HARD CURRENCY TRADE WITHIN CEMA, PRIMARILY WITH THE USSR. IF THE HUNGARIANS HAD BEEN ABLE TO REDEEM THIS ENTIRE SURPLUS IN CASH, THEIR DEFICIT WOULD HAVE BEEN REDUCED BY NEARLY ONE-THIRD.

6. AT PRESENT, HOWEVER, WE ARE INCLINED TO BELIEVE THAT REPORTED SURPLUSES OF THIS SORT ARE LARGELY NOT TRANSLATED INTO ACTUAL TRANSFERS OF CONVERTIBLE CURRENCY. IT SEEMS REASONABLE THAT MOST CEMA MEMBERS WOULD TEND TO RESIST CEMA TRADE PAYABLE IN HARD CURRENCY. THIS IS TRUE PRIMARILY BECAUSE OF THE INEQUITABLE DISTRIBUTION OF HARD GOODS AMONG THESE COUNTRIES. CLEARLY, COUNTRIES POORLY ENDOWED WITH

CONFIDENTIAL

PAGE 04 STATE 007498

NATURAL RESOURCES, SUCH AS EAST GERMANY AND CZECHOSLOVAKIA, WOULD TAKE A DIM VIEW OF SUCH TRADE, SINCE THEY HAVE FEWER HARD GOODS TO TRADE AND PROBABLY WOULD BE CHRONIC DEBTORS IN INTRA-CEMA TRANSACTIONS. THEIR SETTLEMENT OBLIGATIONS, IF TRADE REMAINED UNBALANCED FOR A PROLONGED PERIOD, WOULD ADD TO THEIR ALREADY LARGE HARD CURRENCY DEFICITS. BUT COUNTRIES RELATIVELY RICH IN NATURAL RESOURCES MIGHT ALSO OBJECT TO INTRA-CEMA HARD CURRENCY TRADE. THEY LOGICALLY WOULD NOT FAVOR SELLING SUCH GOODS IN ABOVE-PROTOCOL TRADE EXCEPT IN CASES WHEN THEY COULD COMMAND PRICES AT LEAST AS HIGH AS THOSE THEY COULD OBTAIN ON WORLD MARKETS. HOWEVER, THEY MAY NOT ALWAYS BE ABLE TO DO SO. SOME WESTERN ECONOMISTS SUPPORT THE ARGUMENT ADVANCED BY THE FRG E/C MINISTER IN MOSCOW (REF A) TO EFFECT THAT ABOVE-PROTOCOL SOVIET OIL EXPORTS (AND, BY IMPLICATION, EXPORTS OF OTHER HARD GOODS AS WELL) ARE PRICED BELOW PREVAILING WORLD MARKET RATES, ALTHOUGH STILL ABOVE THE RUBLE EQUIVALENTS THAT PREVAIL IN REGULAR PROTOCOL TRADE. THE SOVIETS CLEARLY WOULD PREFER TO SELL OIL ELSEWHERE UNDER THESE CONDITIONS. FURTHERMORE, PRICES OF HARD GOODS MIGHT BE DISCOUNTED IN CEMA NEGOTIATIONS, EVEN WHERE HARD CURRENCY IS TO BE PAID FOR THEM, IF THE GOODS TEMPORARILY ARE NOT MARKETABLE IN THE WEST. THIS COULD WELL HAVE BEEN THE SITUATION, FOR EXAMPLE, WITH RESPECT TO AGRICULTURAL EXPORTS SUBJECT TO EC QUANTITATIVE RESTRICTIONS.

7. IF HARD CURRENCY DID NOT CHANGE HANDS IN INTRA-CEMA TRADE, CREDITOR COUNTRIES WOULD BE INCLINED EVEN MORE STRONGLY TO AVOID EXPORTS OF HARD GOODS ABOVE PROTOCOL. THIS WOULD BE TRUE, SINCE IF SURPLUSES IN SUCH TRADE WERE NOT REDEEMABLE IN HARD CURRENCY, A SURPLUS IN TRADE WITH

ANOTHER CEMA COUNTRY DURING A GIVEN YEAR WOULD AT BEST REPRESENT A CLAIM UPON THAT COUNTRY'S EXPORTS OF HARD GOODS DURING SUBSEQUENT YEARS. AT WORST, IT MIGHT MEAN THAT THE CREDITOR COUNTRY HAS NO GUARANTEE THAT ITS SURPLUS (PROBABLY IN THE FORM OF A "TRANSFERABLE" RUBLE CREDIT) COULD BE

CONFIDENTIAL

PAGE 05 STATE 007498

REDEEMED IN SIMILAR GOODS, OR EVEN IN GOODS FOR WHICH THERE IS COMPARABLE DEMAND, NOR COULD IT BE ASSURED OF REPAYMENT WITHIN A SPECIFIED PERIOD OF TIME. THE HEAD OF A POLISH FTO TOLD A DEPARTMENT OFFICER THAT HIS ORGANIZATION OCCASIONALLY MAKES ABOVE-PLAN SALES TO OTHER CEMA MEMBERS FOR HARD CURRENCY, BUT THAT THEY DID NOT LIKE TO DO SO. GIVEN POLAND'S SHORTAGE OF HARD CURRENCY, AND THIS PARTICULAR FTO'S AGGRESSIVE SEARCH FOR HARD CURRENCY FROM THE WEST, IT WOULD APPEAR LIKELY THAT TRANSACTIONS INVOLVING HARD CURRENCY EARNED WITHIN CEMA ARE IN SOME WAYS LESS SATISFACTORY, AT LEAST FROM THIS FTO'S POINT OF VIEW, THAN SUCH TRANSACTIONS IN THE WEST. RELUCTANCE TO SELL FOR HARD CURRENCY WITHIN CEMA COULD BE THE RESULT OF KNOWLEDGE THAT PAYMENT WOULD TAKE THE FORM OF FUTURE SHIPMENTS OF HARD GOODS, OR, AS NOTED ABOVE, THAT PAYMENT WOULD BE IN CASH BUT AT A SUBSTANTIALLY DISCOUNTED PRICE.

8. TO THE EXTENT THAT CASH PAYMENTS ARE MADE, WE BELIEVE THAT THEY WOULD MORE LIKELY TAKE THE FORM OF EXTRAORDINARY, ONE-TIME SHIPMENTS DESIGNED TO RELIEVE UNEXPECTED SHORTAGES--E.G., POLISH MEAT PURCHASES FROM ROMANIA AND BULGARIA. THERE MAY ALSO HAVE BEEN CASES IN WHICH EAST EUROPEAN COUNTRIES HAVE ACTED AS PURCHASING AGENTS IN THE WEST FOR THE SOVIET UNION, PAYING CONVERTIBLE CURRENCY TO WESTERN SUPPLIERS AND RECEIVING COMPENSATION, PLUS A FEE, FROM THE USSR. THESE TYPES OF TRANSACTIONS, HOWEVER, ALMOST CERTAINLY COMPRISE ONLY A TINY PROPORTION OF TOTAL INTRA-CEMA TRADE, PROBABLY BELOW THE ESTIMATES THAT HAVE BEEN MADE FOR THE "HARD CURRENCY" COMPONENT OF POLISH AND HUNGARIAN TRADE (2-5 AND 15-20 PERCENT, RESPECTIVELY).

9. WE WILL BE GRATEFUL FOR POSTS' COMMENTS ON POINTS RAISED ABOVE, ESPECIALLY ANSWERS TO QUESTIONS RAISED IN PARAGRAPH 4, AND FOR ANY FURTHER INFO THAT MAY BE DEVELOPED RELATING TO: A) ESTIMATES OF ACTUAL HARD CURRENCY TRANSFERS WITHIN CEMA; B) THE FREQUENCY OF HARD

CONFIDENTIAL

PAGE 06 STATE 007498

CURRENCY SETTLEMENTS (I.E., ANNUAL, SEMI-ANNUAL, OR BY

TRANSACTION); AND C) ADDITIONAL EXAMPLES OF THE TYPES OF
TRANSACTIONS INVOLVED.
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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
Disposition Event:
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